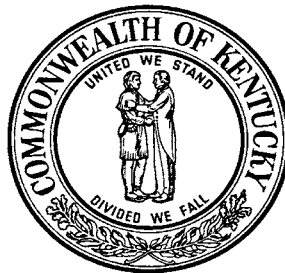


**REPORT OF THE AUDIT OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES AND
SHERIFF'S SETTLEMENT - UNMINED COAL TAXES**

October 3, 2001



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sid Stewart, Morgan County Judge/Executive
Honorable Bill Lacy, Morgan County Sheriff
Members of the Morgan County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Morgan County Sheriff's Settlement - 2000 Taxes and 2000 Unmined Coal Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Morgan County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES AND
SHERIFF'S SETTLEMENT - 2000 UNMINED COAL TAXES**

October 3, 2001

Berger & Ross, PLLC
Certified Public Accountants and Fraud Examiners
800 Envoy Circle
Louisville, KY 40299-1837
(502) 499-9088
Fax: (502) 499-9132

400 Democrat Drive
Suite 2107
Frankfort, KY 40601
(502) 695-7353

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES AND 2000 UNMINED COAL TAXES

October 3, 2001

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2000 Taxes and the Sheriff's Settlement 2000 Unmined Coal Taxes for Morgan County Sheriff as of October 3, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Sheriff collected net taxes of \$1,664,475 for the districts for 2000 taxes. Sheriff distributed taxes of \$1,664,164 to the districts for 2000 Taxes. Taxes of \$558 are due to the districts from the Sheriff and refunds of \$247 are due to the Sheriff from the taxing districts.

Deposits:

The Sheriff's deposits were insured and sufficiently collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2000 TAXES	3
SHERIFF'S SETTLEMENT - 2000 UNMINED COAL TAXES	5
NOTES TO FINANCIAL STATEMENT	6
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11



(502) 499-9088
800 Envoy Circle
Louisville, Kentucky 40299-1837

FAX: (502) 499-9132
Email: irsrescue@msn.com
Internet: www.irsrescue.com

Member:
American Society of Tax
Examiners (ASTE)
Association of Certified Financial Planners
Association of Government Accountants
Community Association of Tax
Examiners
Kentucky Association of Accountants &
Tax Preparers
National Association of Tax Examiners
Society of Certified Financial Planners

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sid Stewart, Morgan County Judge/Executive
Honorable Bill Lacy, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the Morgan County Sheriff's Settlement - 2000 Taxes and the Sheriff's Settlement - 2000 Unmined Coal Taxes as of October 3, 2001. This tax settlement is the responsibility of the Morgan County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Morgan County Sheriff's taxes charged, credited, and paid as of October 3, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sid Stewart, Morgan County Judge/Executive
Honorable Bill Lacy, Morgan County Sheriff
Members of the Morgan County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 11, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
October 11, 2002

MORGAN COUNTY
BILL LACY, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

October 3, 2001

	County Taxes	Special Taxing Districts	School Taxes	State Taxes
<u>Charges</u>				
Real Estate	\$ 100,099	\$ 402,091	\$ 683,714	\$ 239,220
Tangible	10,460	46,682	72,336	57,464
Intangible	-	-	-	18,455
Fire Acreage	3,495	-	-	-
Additional Bills	205	824	1,391	1,128
Oil, Gas, UND, Sand, Lime, & Gravel	108	433	736	257
Total Per Sheriff's Official Receipt	\$ 114,367	\$ 450,030	\$ 758,177	\$ 316,524
<u>Other Taxes and Charges</u>				
Bank Franchise	22,097	-	-	-
Correcting Erroneous Assessments	30	119	202	71
Franchise Corporation	16,582	71,904	114,057	-
Penalties & Interest	1,326	5,187	8,802	3,165
Gross Chargeable to Sheriff	\$ 154,402	\$ 527,240	\$ 881,238	\$ 319,760
<u>Credits</u>				
Exonerations	\$ 1,162	\$ 4,630	\$ 7,871	\$ 2,754
Delinquents	6,706	26,425	44,827	15,660
Unpaid Franchise	1,158	4,755	7,929	-
Discounts	1,499	5,909	9,925	4,441
Total Credits	\$ 10,525	\$ 41,719	\$ 70,552	\$ 22,855
Net Tax Yield	\$ 143,877	\$ 485,521	\$ 810,686	\$ 296,905
Less: Commissions*	6,402	20,635	32,427	12,906
Taxes Due Districts	\$ 137,475	\$ 464,886	\$ 778,259	\$ 283,999
Taxes Paid	137,722	464,737	810,412	283,864
Less: Commission Refunds From School	-	-	32,427	-
		**		
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	\$ (247)	\$ 149	\$ 274	\$ 135

* and ** See Page 4

The accompanying notes are an integral part of these financial statements.

MORGAN COUNTY
BILL LACY, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES
October 3, 2001
(Continued)

*Commissions:	10% on	\$	10,000
	4.25% on	\$	916,303
	4% on	\$	810,686
**Special Taxing Districts:			
Library District		\$	28
Health District			32
Extension Service District			27
Ambulance District			46
Soil Conservation District			16
			<hr/>
Due Districts or (Refunds Due Sheriff)		\$	<u>149</u>

The accompanying notes are an integral part of these financial statements.

MORGAN COUNTY
 BILL LACY, SHERIFF
SHERIFF'S SETTLEMENT - 2000 UNMINED COAL TAXES

October 3, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 2	\$ 7	\$ 12	\$ 4
Gross Chargeable to Sheriff	\$ 2	\$ 7	\$ 12	\$ 4
Net Tax Yield	\$ 2	\$ 7	\$ 12	\$ 4
Less: Commissions*	-	-	-	-
Taxes Due Districts	\$ 2	\$ 7	\$ 12	\$ 4
Taxes Paid	2	7	12	4
Taxes Due Districts (Refund Due Sheriff)	\$ -	\$ -	\$ -	\$ -

* No commissions were due on these taxes.

The accompanying notes are an integral part of these financial statements.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

October 3, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 15, 2000, the Sheriff's deposits were fully insured or collateralized at 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT
October 3, 2001
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2000 through May 7, 2001.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2000. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 16, 2000 through May 7, 2001.

Note 4. Interest Income

The Morgan County Sheriff earned \$2,457 as interest income on 2001 taxes. As of October 11, 2002, the Sheriff owes \$206 in interest to the Common School District and \$349 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Morgan County Sheriff collected \$13,418 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

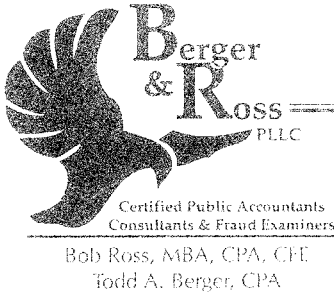
The Morgan County Sheriff collected \$91 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplainable Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2000 taxes, the Sheriff had \$1,370 in unrefundable duplicate payments and unexplainable receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



(502) 499-9088
800 Envoy Circle
Louisville, Kentucky 40299-1837

FAX: (502) 499-9132
Email: irsrescue@msn.com
Internet: www.irsrescue.com

Member
American Institute of CPAs
Kentucky Institute of CPAs
Association of Certified Fraud Examiners
Association of Tax-Exempt Accounting Firms
Chartered Accountants Association
National Association of Accountants
National Association of Certified Public Accountants
Government Finance Officers Association

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Sid Stewart, Morgan County Judge/Executive
Honorable Bill Lacy, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the Morgan County Sheriff's Settlement - 2000 Taxes and the Sheriff's Settlement - 2000 Unmined Coal Taxes as of October 3, 2001, and have issued our report thereon dated October 11, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Morgan County Sheriff's Settlement - 2000 Taxes and the Sheriff's Settlement - 2000 Unmined Coal Taxes as of October 3, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
October 11, 2002

